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SUBJECT: Mongolia and GSP: An undiscovered Country

11. SUMMARY: Less than half a percent of Mongolia's exports to the U.S. came in under GSP in 2006, partially because over 90% of Mongolian exports to the U.S. are textiles. However, in other cases, Mongolian goods eligible for GSP treatment simply don't take advantage of it. The Ministry of Industry and Trade has made little effort to publicize GSP or to pursue the GSP handicrafts agreement the U.S. suggested in last year's TIFA talks. Instead, the Mongolians, seeking a "home-run" mechanism to boost exports (particularly textiles, which declined sharply after the end of the Multifiber Arrangement), constantly suggest recourse to either a bilateral FTA or something patterned after the African Growth and Opportunity Act (AGOA). The Mongolians may be right that the individual totals per GSP product category will be low but, taken together, numerous small GSP applications can add up to sizable exports. Both USTR and post have committed themselves to promote GSP opportunities to Mongolian export entities. End Summary.

GSP Fails to Inspire

12. A U.S. Presidential Declaration of July 1, 1999, made Mongolia eligible for the Generalized System of Preferences (GSP). Since then, Mongolia has become disappointed with the GSP scheme, largely due to the lack of increased exports under the scheme. In 2006, U.S. figures indicate that only \$530,000 of Mongolia's \$113 million in exports to the U.S. entered under the GSP program (consisting entirely of \$367,000 of tungsten concentrates, and \$163,000 under HTS 39, plastics and articles thereof). Figures for 2004 and 2005 were even lower (respectively, \$142,000 and \$162,000 in total GSP exports).

13. A 2003 World Bank study found that only 1% of all of Mongolia's non-agricultural exports to the U.S. entered under GSP, putting Mongolia at the very bottom of the GSP beneficiaries. Only 12 percent of all Mongolian exports to the U.S. eligible for GSP treatment actually used the scheme (with an average tariff preference of 3.1%). One reason for this lack of use is that minerals (particularly fluorspar), the country's only sizable GSP-eligible export to the U.S., already benefit from zero tariffs. In other cases, GSP-eligible Mongolian exports simply fail to take advantage of the scheme. A recent USTR review of Mongolian products entering the U.S. revealed that dozens of Mongolian products exported to the U.S. qualify for GSP duty-free treatment of from three to seven percent, but do not receive it for lack of marking an "A" on the appropriate place on U.S. Customs Form 7501.

AGOA Envy

15. While Mongolia views a bilateral FTA as its main trade goal with

the U.S., Mongolia alternatively hopes for some equivalent of the U.S. African Growth and Opportunity Act (AGOA), which includes GSP concessions on some textile exports. Textiles and garments constitute 90% of Mongolia's exports to the U.S. (50% of exports to the U.S. in 2006 were knitted apparel items, and 41% were non-knitted apparel items). Mongolia's exports to the U.S. are heavily concentrated in a few textile products: cotton pants, men's shirts, children's pants, and a few knitted items such as suits and t-shirts. Out of the top 20 export products, 18 are textile products, of which 13 are cotton-based and are exclusively exported to the U.S.

16. The expiration of the Multifiber Arrangement in 2005 brought hard times, and saw Mongolia's textile industry collapse to 10,000 workers and 20 exporters, down from a height of 40,000 workers and 80 exporters in 2001. Entirely because of precipitous declines in exports of textiles, total Mongolian exports to the U.S. of all products dropped from \$239 million in 2004, to \$143 million in 2005, and \$113 million in 2006. Chinese and Korean investors pulled up stakes and moved south of the border to take advantage of lower production costs, leaving the industry moribund. In a bid to keep the industry on life support, the Mongolian Parliament has approved VAT and customs duties exemptions on textile raw materials and other equipment used in apparel manufacture.

17. Since 2005, Mongolia's textiles and apparels have been eligible for export to Europe under the EU's GSP Plus system. However, results have been lackluster. European customers generally place small orders for high quality material, and this low demand makes it hard for Mongolian producers to export in large quantities that would earn sufficient profits. Textile manufacturers find that shipping times and inspections cut into already narrow profit margins on the small shipments, making them question if it is really

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worth their effort. Mongolian manufactures long for the large bulk shipments that characterized their exports to the U.S., which more than made up for transport and administrative costs. Consequently, Mongolians view GSP Plus as little more than a marketing exercise -- introducing Europe to their products, especially cashmere, and enticing vendors to increase their orders.

Education is Key

18. Perhaps the greatest obstacle to Mongolia's taking full advantage of export opportunities under the U.S. GSP system is its lack of awareness of what exactly qualifies for preferences, making the case for education and outreach all the more palpable. Embassy Ulaanbaatar, following up on March 2006 Trade and Investment Framework Agreement (TIFA) discussions in Washington, provided information to our Mongolian counterparts at the Ministry of Industry and Trade (MIT) that aimed to promote increased use by Mongolia producers, importers, and exporters of the U.S. GSP Program's duty-free benefits administered by the Office of the U.S. Trade Representative (USTR). Post can find little evidence that MIT has made any but the most desultory attempts to reach out to Mongolian business entities regarding GSP opportunities. MIT has not held any seminars on GSP for any of the target audiences.

19. Experience with the Mongolia GSP handicrafts agreement is a case in point. Following the 2006 TIFA meeting, the U.S. and Mongolian Governments agreed to informally consider a GSP certified handicraft agreement. The agreement gives duty-free treatment to certified exports to the U.S. of certain hand-loomed and folklore wall hangings and pillow covers, and certain hand-loomed fabrics. However, the Mongolians remain ambivalent about the handicrafts agreement. After they received USTR Portman's letter with recommendations on improvement of technical issues, the Ministry of Industry and Trade (MIT) expressed doubts about the worth of going through so much effort, especially if Mongolia could not produce sufficient quantities of hand made products "to fill even a single container for export." One year later, MIT has told us they have not yet done all the work necessary to bring a handicrafts agreement into effect.

¶10. MIT's lack of enthusiasm for the agreement is puzzling. When asked, MIT colleagues acknowledged that they had not pounded the pavement and beat the gongs to see if any Mongolian firms would be interested. For example, they did not even ask Mongolia's largest producer of leather souvenirs if it had an interest in the handicrafts agreement. It is reasonable to conclude that MIT does not really know the actual value of the agreement to Mongolia. Further, post noted to MIT that even if the immediate economic impact might be slight in the near term, a well-advertised demonstration to the producers that MIT is taking steps to craft, sign, and promote a trade agreement would be a deliverable that MIT could proudly bring forward to the public.

¶11. Both USTR and post have undertaken specific ongoing measures to increase understanding and use of GSP in Mongolia. First, USTR and post have sponsored GSP digital video conferences for MIT so that it can learn how to explain the system and possible opportunities to exporters. Second, USTR/post will co-sponsor a "GSP Road Show" with MIT and the Mongolian National Chamber of Commerce and Industry that will reach out to exporters in Mongolia's three largest cities. NGOs working with the urban and rural poor who make many exportable handicraft products will also be included in the outreach. These are small steps to be sure, but incremental steps that will add up to a prosperous, mature trade relationship in the long run.

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